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RUPERT MURDOCH ON THE ARROGANCE OF THE CULTURE ELITE

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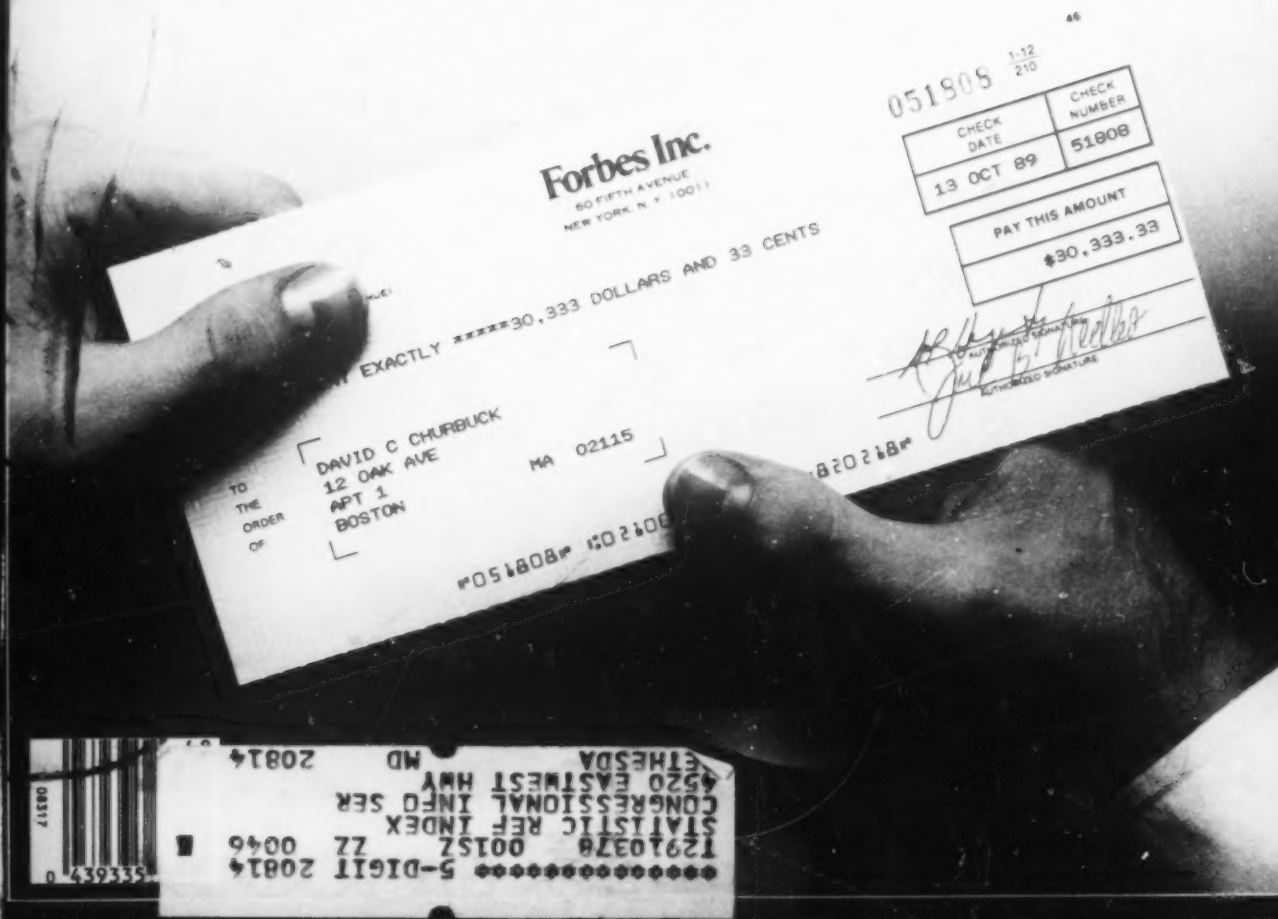

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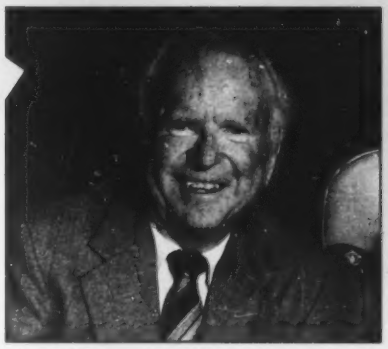

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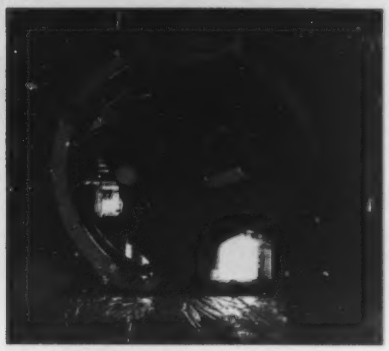

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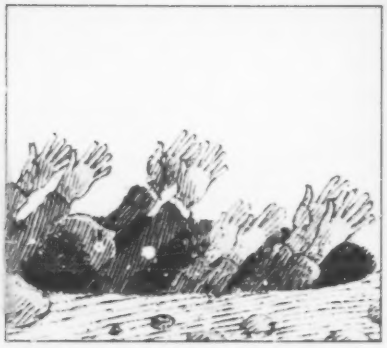

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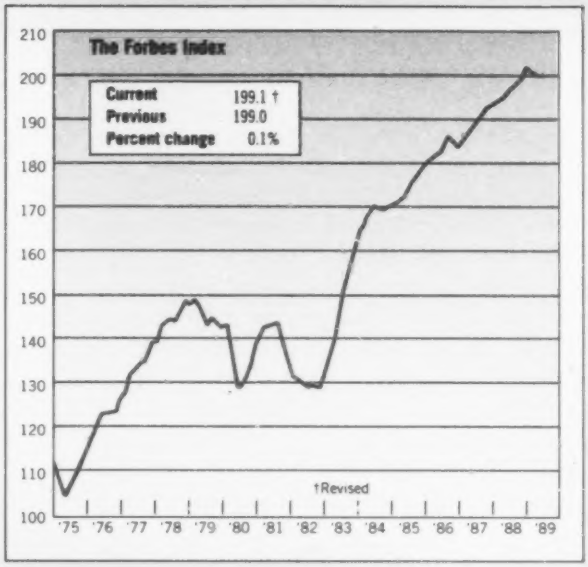
The Forbes Index



Jobs and income. Both are important components of economic health indicators like the Forbes Index. Recent action on minimum wage law will probably have conflicting effects. The compromise between the Administration and Congress calls for an increase in the hourly minimum to $4.25, which will boost income for those at the bottom rung but reduce the number of low-wage workers who can get or keep jobs. In October the unemployment rate held steady at 5.3% as 233,000 new jobs were created. Income for now looks a little weaker. Net of inflation, personal income was up 1.6% in the first nine months of this year, against 4.7% in the same period last year.

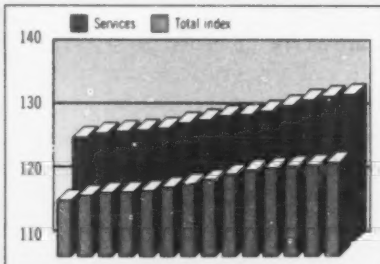
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.5%
Auto sales[1] year to date vs. 1988	Ward's Automotive	-3.5%
Index of leading indicators September vs. August	Dept. of Commerce	0.2%
Trade balance last 12 months	Dept. of Commerce	-$112 bil
Producer price index[2] September vs. 1988	Dept. of Labor	4.5%
GNP est 3rd quarter vs. 2nd—annualized growth	Dept. of Commerce	2.5%

[1]U.S. based manufacturers only as of 10/31/89. [2]Finished goods.

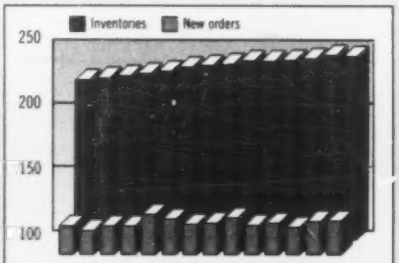
Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

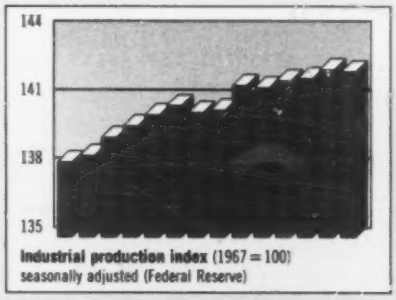
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



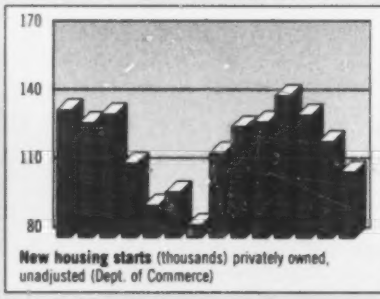
Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



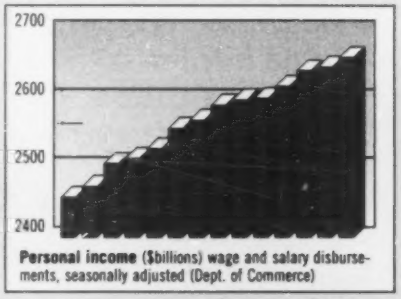
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



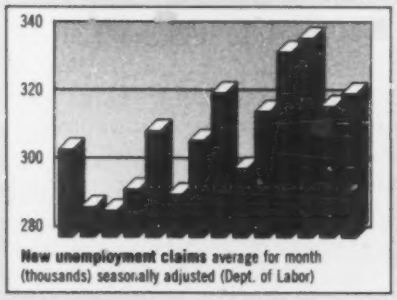
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)



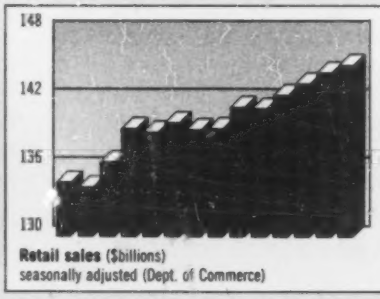
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)

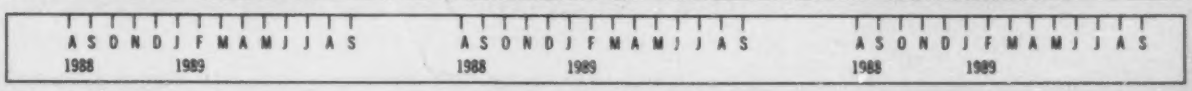


New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)



Forbes

The smart money isn't taking on debt these days; it is getting ready to grab bargains the second time around on overpriced and overburdened deals that collapsed.

Be wise, equitize

By Phyllis Berman with Katherine Weisman

HERE'S HOW A DENIZEN of Wall Street explains the collapse of the junk bond market:

"There are the brain surgeons on Wall Street. And there are student interns. Those people putting the junk deals together in 1983 and 1984 were brain surgeons. Today the junk deals are being done by interns."

The veteran player says it in a tone of disgust, the disgust a disciplined pro feels toward greedy but sloppy latecomers. Because too many of the recent deals have been botched, he says, the junk bond market has all but collapsed. Junk bond yields now command a premium of more than seven percentage points over Treasury bonds, as against a more normal 4% or so. Why? Because the bad deals have given all the deals a bad name.

His point is that most of the highly leveraged deals made by Michael Milken and Drexel Burnham in their heyday were sound, and could be financed out of cash flow and easy asset sales at least so long as the economy stayed good. Of course, some of Milken's later deals were not so sound. And many takeovers and buyouts done recently are financed as much on hope as on cash even in today's strong economy. They make sense only for the investment bankers, who earn huge fees from them.

It isn't junk financing per se that has produced the collapse but people willing to do a deal at any price, with little regard for fundamentals.

Ralph Dominguez/Globe Douglas Kirkland/Sygma Eddie Adams/Sygma

Wise men (l. to r.) Michael Milken, Ted Turner, Ronald Perelman
The deleveraging of U.S. business has already started.

Assuming this judgment is correct, what now? Will the deals stop? Obviously not. But they will be structured with much more equity and equity equivalents. The deleveraging of U.S. business has already started.

"Deleveraging is going to be the buzzword of the Nineties," says Robert Willens, senior vice president at Shearson Lehman Hutton.

One clear example involves Turner Broadcasting, a huge entrepreneurial company that has expanded in recent years with heavy junk bond financing. In the past few months Ted Turner has quietly but effectively deleveraged his company.

Starting in August Turner refinanced well ahead of maturity all of its $1.4 billion in long-term debt. In doing so, it lengthened the average maturity of its debt from 7 to 11 years and cut its average interest rate from 14% to 11%.

Of the Turner refinancing, $200 million was in zero coupon debentures, convertible into common at a 15% premium over the market price on the day the deal closed. If these zero convertibles aren't equity, we don't know what is.

Merrill Lynch sold these zero converts for Turner. Even though these require no cash interest payments, they yield Turner a tax deduction for federal income tax purposes; the debentures are cash positive for the company rather than a cash drain.

Turner is not alone in deleveraging. Holiday Corp. announced in August that it would effectively get rid of most of its debt. It will do so by swapping its Holiday Inns to Bass Plc. in the U.K. in return for an assumption by Bass of $2.1 billion in Holiday debt and a modest amount of Bass stock.

The successor company, renamed Promus and owning Holiday's remaining assets, will have just $1 billion in debt.

Ronald Perelman, who became a billionaire after Michael Milken raised the money to finance Perelman's purchase of Revlon, has been deleveraging, partly through asset sales. Revlon's remaining assets are probably worth $3 billion, as against a remaining debt of just $1.5 billion. This is a far cry from the almost 100% debt ratio Perelman assumed at the time of the takeover.

"You're going to see a lot of these deleveragings over the next few years," asserts Willens of Shearson.

The list goes on and on. American Communications recently deleveraged by swapping $52 million of debt for 4.3 million shares of common stock. Tonka Toy Co. proposed a public offering of 6.5 million shares of common to repay debt incurred in the acquisition of Kenner Parker Toys.

Then there's Safeway. The big grocery chain went private in a Kohlberg Kravis Roberts leveraged buyout in 1986, has since paid its debt down from $5.7 billion to $3.1 billion, and is now expected to do a public offering.

What's going on here? Have all these shrewd operators suddenly seen the errors of their debt-prone ways? That's not it at all. Many of the formerly leveraged who are now deleveraging were clients of Michael Milken. While Milken is seen by the public as the king of junk bonds, the truth is that he always believed in flexible financing. In his recent speeches he has said that a company should use whatever form of financing is the cheapest and most advantageous at any time. It happened that when Milken was starting out, debt was relatively cheap and equity was dear, so he advised clients to raise money via junk bonds. But times change. The stock market is much higher than in 1985, while junk bonds are harder to sell. The net result is that equity is cheaper than junk.

Milken recently said, "Bankers just keep 'Xeroxing' the deals of 1985. But today it no longer makes sense to copy the deals of the early 1980s, when the spread in some cases between Treasurys and the junk bonds issued was 2% rather than the present 6% or 7%. "Raising the yield on a deal from 16% to 17% doesn't make it a better credit," says Milken, critical of those who think sweetened yields will make unsound deals sound.

Not every business, Milken says, is suitable for leveraging. He cites natural resources, for example. "There is no steady, dependable stream of cash flow," says Milken. Leveraging up the airlines may also be a mistake.

That's what the bankers thought, too, when they pulled the plug on the $300-a-share UAL takeover.

Of his current leaning to equity rather than debt, Milken adds: "This is no reversal. I've always maintained that markets change. This is not a change in philosophy at all. Today a company needs to be capitalized with equity or equity-oriented securities that are closer to government rates."

The excessive use of bridge loans by investment bankers is also drawing criticism. To land a deal and the juicy fees associated with it, bankers will use their own money as part of the down payment. This is intended as a bridge between closing the deal and getting longer-term outside financing later. It is not unlike a real estate broker's offering to lend a buyer part of the down payment to get a deal done. It involves the banker in an enormous risk for which the commission may or may not compensate him.

In total, about $20 billion in bridge financing has been extended since year-end 1988; at any one time there is about $6 billion outstanding. Drexel, with some $500 million in bridges, and First Boston, with more than $700 million, are among the most active in advancing bridge loans.

Some of the bridge loans are already in trouble. First Boston's Ohio Mattress leveraged buyout involved a $450 million bridge from the investment banker. The investment firm has tried, twice, unsuccessfully to sell junk bonds to refinance the bridges.

Put it this way: Brokers with bridge exposure might find themselves long-term creditors.

The dangers for the clients can be even worse. Bridges were designed with an effective incentive built in to force managements to pay them off as quickly as possible—a kind of tightening of the screw. The interest rate ratchets up quickly—to as much as 50 basis points per quarter. Lacking cash flow to service debt and overpriced to begin with, some of these bridge-financed deals will collapse.

Milken says—and many others agree—that the high-priced deals of the past year or so using bridge financing and junk will lead to bargain opportunities for those who have cash or spare borrowing capacity.

This trend has clearly started al-

Stocking up again

Leveraged buyouts and stock buybacks have, of late, taken huge amounts of equity off the market. But in the past sales of common stock have been a big source of capital for industry. The situation varies widely year by year. In 1980, for example, U.S. industry sold $17 billion in net new equity capital; the following year it bought back $9 billion more in equity than it sold. This table shows major peaks and troughs in net equity issuance. Note that peaks frequently, but not always, coincide with relatively high and rising stock markets. The tide seems to be turning again. While the numbers aren't in for 1989, indications are that equity withdrawal has dropped sharply from last year. The orgy of corporate debt creation seems to be ending. Equity is back in favor.

	Year	Net equity issuance ($bil)*	Dow high	Dow low
Trough	1948	$1.1		165.39
Peak	1961	3.3	734.91	
Trough	1965	0.8		840.59
Peak	1972	15.1	1036.27	
Trough	1979	–4.1		796.67
Peak	1980	17.4	1000.17	
Trough	1981	–8.5		824.01
Peak	1983	30.8	1287.2	
Trough	1988	–117.2		1879.14
Peak	?	?	?	?

*Issuance of public corporate equity, less retirements in repurchases and mergers.

Sources: Federal Reserve Bank, The Dow Jones Investor's Handbook

ready. When the richly priced takeover by Robert Campeau of Federated Department Stores started to sink this summer, the cash-loaded Reichmanns of Toronto stepped in with a low-priced loan in return for equity. Campeau's bad deal, put together for him by the famous Bruce Wasserstein, could well turn out to be a good deal for the Reichmanns.

Revco, a $1.5 billion Salomon Brothers leveraged buyout, sank in 1988 under debt that cash flow couldn't support. One of the Bass brothers has expressed interest in buying Revco for $925 million. First time around it was clearly overpriced, the second time probably a bargain.

Without any doubt, there will be many more such refinancings involving equity infusions into overleveraged situations. Aware of this, a lot of smart money is getting liquid.

An expectation of coming bargains is probably the motivation behind recent raisings of equity capital by people who don't need it. Warren Buffett's Berkshire Hathaway recently sold $400 million in convertible bonds. Laurence Tisch's Loews Corp. sold $432 million in convertibles. Neither Loews nor Berkshire needed the money to pay off debt, because neither is leveraged. But both clearly felt this was a good market for selling equity equivalent. Buffett said so: "The best time to buy assets may be when it is hardest to raise money."

It's a good bet that Tisch and Buffett will put some of the money to work when the bad leveraged deals start to fall apart.

In their expectations of a nationwide switch away from debt and back toward equity, Michael Milken and Warren Buffett have history on their side. As the table on page 39 shows, there have been waves of debt financing and waves of equity financing in the past. When the stock market gets relatively high, people use equity financing. When stock prices are relatively low, the smart business person borrows rather than sells stock. It's the way markets work. And woe betide latecomers to the leverage table. The deleveraging of America is under way, not because politicians or moralists said leverage was bad, but because of simple arithmetic. ■

Chairman Roger Smith says GM's market share is about to rebound, profits could explode, Jaguar was a sure loser and Washington is crazy.

"1990 will be the year of the General"

By Jerry Flint

THERE HASN'T BEEN a lot of good news about General Motors lately, so we decided to start the interview with Chairman Roger Smith on a positive note. We remarked that if it could get its U.S. market share back up, GM could earn as much as $10 billion—$16 a share—in a single year.

"You got it," says Smith. "Let me tell you, we could be making that today if I didn't have to pay all those rebates and incentives. They're up in the area of $6 billion this year."

As Roger Smith enters his last year as GM chairman, he maintains that the auto giant's worst problems are behind it, that the new models beginning to emerge from GM's design center will win back lost customers. This, combined with the cost-cutting measures Smith has taken over the past few years, could produce tremendous profit growth.

Is this a pipe dream? Less than a decade ago, nearly one in every two American car buyers chose a GM car. Today that enviable fraction has declined to just about one in three. GM's market share has fallen from nearly 50% to about 35%.

Smith: "We'll be at 37% in 1990, I'm fairly confident. 1990 is going to be the year of the General. Our share of the truck market has gone up five percentage points with our new truck, and if we can do that in trucks, we can do it in cars. We took our eye off the ball, there's no question about that. But we've got it back.

"Now is that a guarantee? Can I cash it in at the bank? No. Other people out there are working just as hard."

But here's the goal: Smith says GM aims to operate its factories at 100% of capacity by 1992. That's important because the tens of billions Smith spent automating and modernizing factories won't fully pay off until the

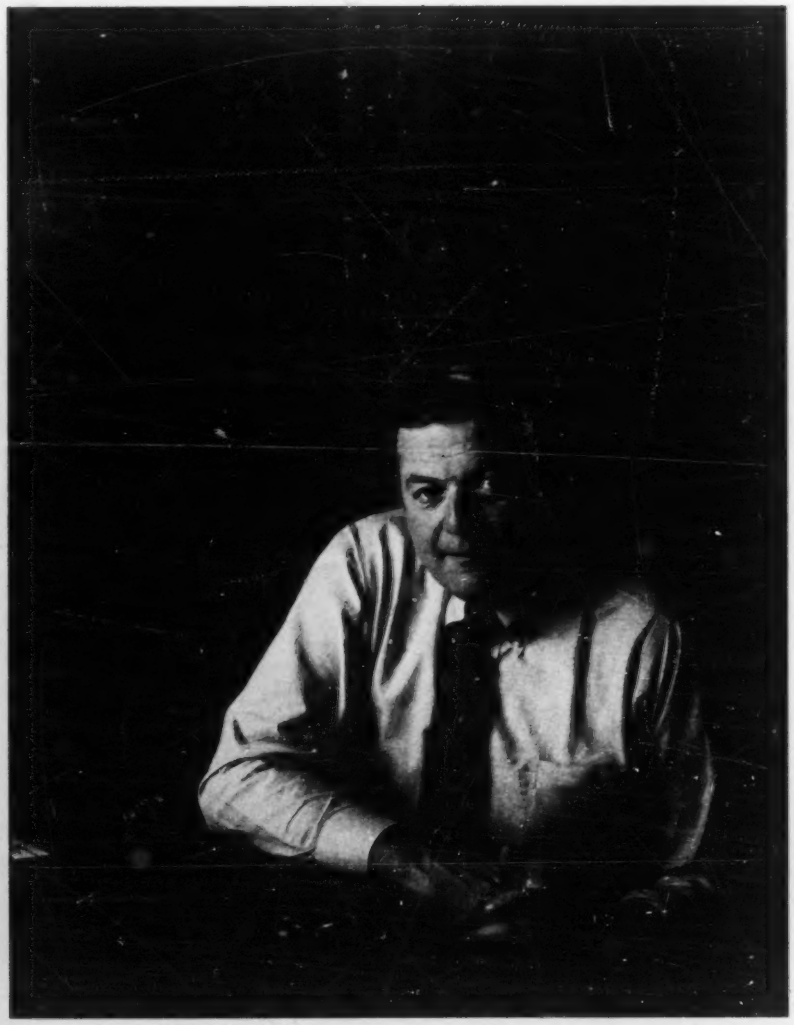
Jim Dunne/Popular Mechanics

Jim Dunne/Popular Mechanics

For GM, no more look-alikes.
Oldsmobile's 1990 minivan, the 1991 Saturn, and (right) the 1992 Pontiac Bonneville.

For mighty, lagging Chevron, the takeover threats may or may not be real. Chairman Ken Derr can't ignore them.

Can Ken Derr turn Chevron around?



Chevron Chairman Kenneth Derr
Can he use the threat as an excuse to do tough things?

By Toni Mack

In September analyst Frederick Leuffer of C.J. Lawrence, Morgan Grenfell issued a report suggesting that Chevron Corp. should be restructured, whether voluntarily or by a raider. That's all it takes in this market eager for whispers about takeovers. Since then, the stock has made the Big Board's most active list nearly every day and has risen 18% to a recent 68⅝, an alltime high. More than 15% of Chevron's 342 million outstanding shares changed hands in little over a month. Who's buying—a raider, or just speculators hoping for a raider? Unclear.

Unclear, too, for Kenneth Derr, a Cornell University M.B.A. graduate who took Chevron's helm as chairman and chief executive officer in January. A 29-year company veteran, Derr, 53, succeeded George Keller, who ran the company for nearly eight years but never acknowledged that anything was wrong with Chevron. Derr, by contrast, concedes readily that Chevron has been something of an industry laggard.

But can he turn the company around? Chevron, with nearly $35 billion in assets, is the nation's third-largest oil company, after Exxon and Mobil. But size is Chevron's only distinction. In no respect does its performance rank with the industry's best.

Take refining and marketing. Chevron is the U.S.' biggest refiner, but its profit per barrel of refined product sold ranked eighth in the industry in 1988, according to Leuffer's calculations. The leaders, Amoco and Atlantic Richfield, earned almost twice Chevron's $1.30-per-barrel profit.

A renovated station in St. Matthews, S.C.
Aiming for more gasoline sales and wider profit margins.

Part of the reason: Chevron's U.S. refinery yield is only 42% gasoline, a high-margin product, compared with more than 50% for Amoco and Arco. Most of the other 58% of the oil Chevron refines goes to less profitable products like diesel fuel and residual fuel oil. The reason for this low gasoline yield is that many of Chevron's refineries need to be revamped. So Derr is now spending about $100 million to increase gasoline yield at one refinery, and has begun the permitting process for a possible $1 billion-plus overhaul of another.

On the marketing front, Derr is spending $800 million to close nearly 1,300 obsolete service stations and build or renovate 722 more. These moves, he has said, should increase Chevron's gasoline sales through its company-controlled stations by better than 25% by 1993 and widen profit margins.

Unfortunately, Derr seems less concerned about flaws in Chevron's exploration unit. Chevron once had a reputation as a superb finder of oil and gas—Saudi Arabia's vast reserves in 1938, for instance. But more recently the company has had trouble finding enough oil and gas to replace what it produces. As a result, its reserves declined. In 1984 Chevron spent over $13 billion to buy Gulf, a move that almost doubled its reserves, but since then the decline has resumed. Since 1984 Chevron has replaced only 82% of its production, despite paying $2.6 billion for Tenneco's reserves in the Gulf of Mexico last year. Chevron's reserves have withered by 5%, or 280 million barrels.

Contrast this with the Royal Dutch/Shell Group, which added enough new oil and gas to replace 123% of its production over the last four years; in other words, the Royal Dutch group added five barrels for every four barrels it used up.

And where Chevron spent about $6.60 for every barrel of oil it has added since 1984, Royal Dutch spent only $4.38, according to oil experts John S. Herold, Inc. (The overall industry average is $5.56.)

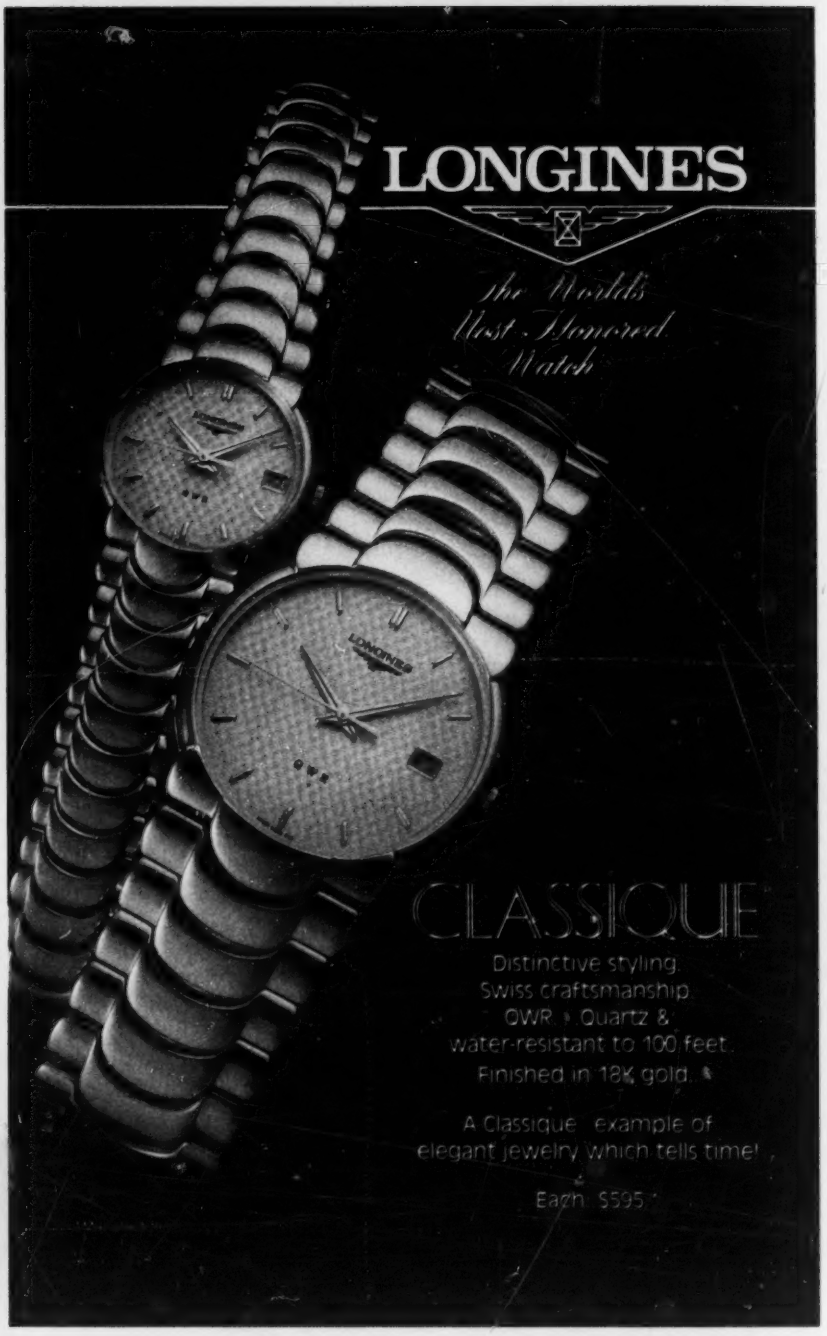
Part of the problem may be that Chevron is overmanned. Last year it earned only $33,600 per employee, compared with $59,700 for Arco and $52,100 for Exxon. But Derr has said nothing publicly about making substantial cuts in Chevron's 53,675-per-

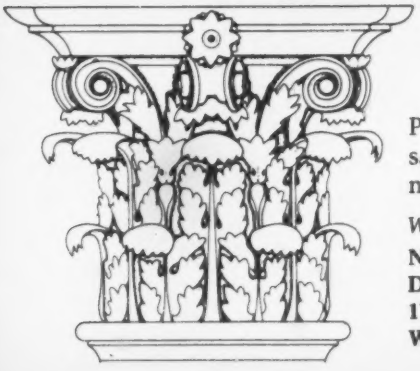
Lackluster

Despite Chevron's huge size, shareholder returns have been disappointing for years. The company reports they are improving. Now, with its price/earnings ratio spurting up to 17.9, investors apparently expect those returns to get even better. Question is, will it take a hostile raider to accomplish that?

Company	1988 sales ($bil)	Recent price	—Latest 12-month— EPS	P/E	—5-year average— return on capital[1]	shareholders' return[2]	total Yield
Amoco	$21.1	47¾	$3.64	13.1	10.6%	13.7%	4.0%
Atlantic Richfield	18.3	102⅛	11.05	9.2	12.8	20.2	4.4
British Petroleum	46.9	56⅞	6.00	9.5	9.7	26.4	6.1
Chevron	25.1	68⅝	3.83	17.9	7.0	12.2	4.1
Exxon	79.5	46	3.11	14.8	13.6	25.4	5.2
Mobil	48.1	56	4.50	12.4	6.8	16.6	4.6
Royal Dutch Petroleum	79.2	65¾	7.60	8.7	11.1	27.3	4.3
Shell Transport & Trading	79.2	40⅛	4.27	9.5	11.1	23.9	4.7
Texaco	33.5	52½	9.52	5.5	5.4	14.3	5.7

[1]Source: CJ Lawrence, Morgan Grenfell. [2]Stock appreciation, assuming reinvested dividends. Source: Royal Dutch/Shell Group.





PRESERVATION
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Write:

National Trust for Historic Preservation
Department PA
1785 Massachusetts Ave., N.W.
Washington, D.C. 20036

son staff.

Derr has been frank, however, in admitting that something needs to be done about raising Chevron's profitability, which clearly trails the industry *(see table, p. 52)*.

Confession may be good for the soul, but it doesn't solve problems. In Chevron's case, its underlying problems will require shaking up the company's clubby, "this-is-the-way-we've-always-done-it" culture. Derr has made a start. He has decentralized management and set performance goals for each worker.

This, of course, is the slow way to turn a company around: from the bottom up. Derr's plans will likely take years to produce results. Derr may not have years. Not only breakup artists but also other big companies in search of expansion stalk the oil patch these days. Rumored buyers for Chevron

Derr's plans will likely take years to produce results. Derr may not have years. Not only breakup artists but other big companies stalk the oil patch. Rumored buyers for Chevron have included British Petroleum, known to covet West Coast refining and marketing assets; Pennzoil, flush with $2 billion; and even Kuwait.

have included British Petroleum, known to covet West Coast refining and marketing assets, something Chevron has in abundance; Pennzoil, flush with $2 billion cash from its Texaco settlement; and most recently Kuwait, which has invested billions of dollars in BP.

Derr has one strong card: Chevron is so big that taking it over would strain the bankroll of almost any prospective acquirer. To buy Chevron at a modest 25% premium to its recent price would require $29 billion. Even a 15% stake, about the size that gave Carl Icahn leverage over Texaco, would cost around $3.5 billion. But, then, nothing is impossible in an era when RJR Nabisco fetched $26 billion.

Put it this way: The threat of a takeover, totally realistic or not, certainly serves as a goad for doing something fairly drastic about Chevron's backwardness. It can also, if Derr is tough-minded enough to use it, serve as a rationale for doing some hard things and firing a lot of people. As Samuel Johnson once said, "When a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully." ■

from. Thus, if your business involves occasionally handing out small refund or payment checks to strangers, move those payments through a checking account with a very small balance. Keep a separate account for larger payments to known and trusted vendors. If the crook uses a refund check as the template for printing an $18,000 fake, he may overdraw the account, triggering an inquiry that may just come in time to catch him.

Bank customers have less immediate reason to fear check counterfeiting than the banks do. Absent some real negligence by the bank customer (such as not doing reconciliations promptly), the loser on a forgery is the bank that accepts it as a deposit. But in the final analysis the losers will be the customers. Forgery losses will inevitably be passed along in the form of higher fees or lower interest rates paid. And if you were put out by all the cross-examining you got last time you walked into a bank to open a new account, brace yourself. Next time it will be a lot worse. ■

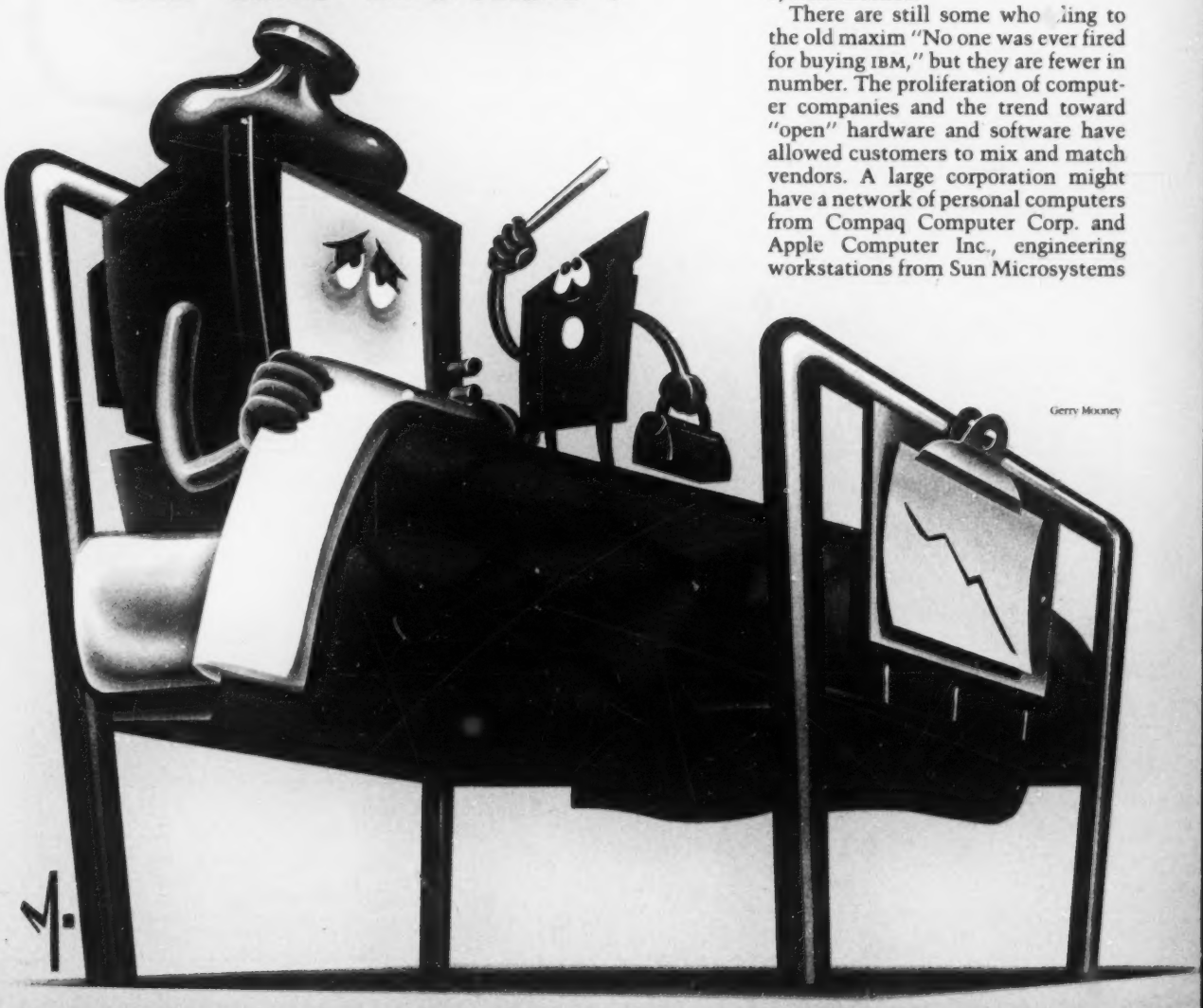
Buying a computer system from one company has drawbacks. But at least you know whom to blame if the system fails.

Is there a doctor in the house?

By Julie Pitta

NOT LONG AGO, one-stop shopping was the philosophy of the conservative computer buyer. You'd buy your mainframe, storage disks, printers, video display terminals and software from one vendor—IBM if you were really conservative, or perhaps Burroughs or NCR or one of the others. The drawback of being locked into one supplier: high prices. The advantage: knowing whom to blame if the system crashed.

There are still some who cling to the old maxim "No one was ever fired for buying IBM," but they are fewer in number. The proliferation of computer companies and the trend toward "open" hardware and software have allowed customers to mix and match vendors. A large corporation might have a network of personal computers from Compaq Computer Corp. and Apple Computer Inc., engineering workstations from Sun Microsystems



Gerry Mooney

Publicly traded networkers

With an intial public offering last February, Network General Corp. joined these publicly traded companies that exclusively sell local area networking products. IBM, Hewlett-Packard and Digital Equipment Corp. are among the computer companies that also offer networking products.

Company/business	Recent price	Last —12 months— EPS	P/E	Revenue* (mil)
Network Systems/software and hardware for local-area-network-to-host computer communications	7⅝	$0.37	20.6	$127
Novell†/software and printed circuit boards for local area networks	28½	1.26	22.6	293
SynOptics Communications/wiring systems to connect computers into networks	19½	1.10	17.7	40
3Com/software and printed circuit boards for local area networks and terminal-to-host communications	11	0.97	11.3	318
Vitalink Communications/network bridges that allow computers to communicate over long distances	18	1.05	17.1	40

*Calendar 1988 revenue from network product sales only. †Acquired Excelan ($64 million sales), a manufacturer of hardware and software for connecting personal computers into local area networks, in 1989. *Source: Dataquest, San Jose, Calif.*

Inc. and printers from Hewlett-Packard Co., all connected to large host computers from IBM or Digital Equipment Corp.

All this is great for the comparison shoppers in the purchasing department, but a big headache for troubleshooters. Enter Network General Corp. of Mountain View, Calif., founded by computer industry veteran Harry Saal in 1986. Network General sells software that allows customers to diagnose failures in a work group known as a local area network. With worldwide revenues for U.S. local area network suppliers expected to reach $6.5 billion in 1989, according to market researcher Dataquest Inc., Saal, 45, has targeted a lucrative niche. So far, his company's only competitors have been Excelan, a company recently acquired by Novell Inc., and Hewlett-Packard, which has not aggressively marketed its diagnostic package.

The electronic standards by which computers talk to one another should, in principle, make the parts of a local network fully interchangeable. And that should, in principle, make diagnostics as simple as replacing one part at a time until the problem stops. The only problem with standards is that everyone has one. And when a problem occurs—say, a personal computer on the network freezes—chances are that the computer vendor will blame the problem on the company that supplied the networking software, and vice versa. "Our philosophy was to be vendor independent," says Mark Rosenberger, a programming specialist at a Chrysler engineering department in Highland Park, Mich. "We buy from 10 to 20 vendors. The problem is that when something goes wrong—one of these boxes doesn't want to talk to another—there's an awful lot of finger-pointing that goes on."

It would be logical for any of the firms supplying networking equipment, either hard or soft, to sell diagnostic aids. (A network's hardware consists of a central computer that acts as "server" for the PCs hanging off it, plus add-on circuit boards inserted into each PC.) But 3Com Corp. and Novell, the leading companies that are exclusively in the network business, have yet to incorporate network management features in their software. When, or if, they do, it's not expected to put an end to problems of customers using large, complicated computer networks. "Network management strategies don't work in multivendor environments," explains Lee Doyle, industry analyst for market researcher International Data Corp. And 3Com and Novell will likely support only their own products.

Network General's Sniffer doesn't come cheap. Running on either a Toshiba or Compaq portable computer, the software package costs an average of $20,000. A portable computer running Sniffer software is designed to be transported to the trouble spot where it is plugged into the network. By looking at the portable's screen, the customer can then monitor the functions of the network: how often files are being sent and which computer users are communicating via the network. It allows the user to spot where the slowdowns or failures are occurring. With that information in hand, it can then target the hardware or software causing the problem.

But, Saal says, the Sniffer is not designed for a small company with a single network and a tight budget. "The way to avoid being a Network General customer is to stay small," he jokes. Network General has targeted large corporations with sophisticated networks. The average local area network crashes twice a month, by Saal's estimate, that computer downtime can mean a fortune in lost productivity or angry customers. Chrysler's Rosenberger attests to that fact: "If our workstations are down, we're losing $50 an hour per designer. At those rates, the Sniffer has more than paid for itself." Using the Sniffer, Rosenberger was able to isolate a problem within the operating system of a workstation. Since then, the vendor has fixed the software bug.

Saal concedes that many of his customers have purchased the Sniffer postdisaster. "People don't invest in our product until they've had a problem," he admits. "There's an awful lot of naiveté out there, an 'It's not going to happen to me' mentality."

These shell-shocked survivors accounted for $12.9 million in revenues for Network General's fiscal year ended Mar. 31. The company did almost that much volume in just the first half of fiscal 1990. The stock is a standout winner among new technology issues of recent years, having doubled from its $8-a-share February initial public offering, from which the company raised $10 million. (It raised another $12 million in a subsequent offering in July.) At a recent $19 per share, it's riding on high expectations at 34 times earnings.

Saal will likely expand Network General's offerings from diagnostic tools for local area networks into those for other kinds of communications, such as a connection between personal computers and mainframes over a wide area network. The future looks bright. "The drop-dead scenario for Network General is if we rolled the clocks back to the 1950s, when customers bought everything from vendor X," Saal says. "But I don't foresee any magic that's going to make those things work all of the time." ■

Edited by Gary Slutsker

Biotech companies are being chased out of their home in Germany and are fleeing to a research haven in the U.S.

Brain drain

By Ronald Bailey

FOR THE PAST four years, Hoechst A.G., one of West Germany's leading chemical and pharmaceutical companies, has been blocked from using its mostly built $38 million ultramodern biotechnology factory outside Frankfurt to produce recombinant human insulin. This plant has sparked passionate opposition from Germany's powerful antibiotechnology movement, which has ground industrial biotechnology in Germany virtually to a halt. Hoechst has reconciled itself to keeping its "museum factory" in mothballs for perhaps two more years. Meanwhile Eli Lilly & Co., the American pharmaceutical giant, continues to sell throughout Germany recombinant human insulin that it makes in the U.S.

Steve Johnson

Hoechst is hardly alone in battling the sometimes explosive antibiotech crowd. In 1985 the prestigious Max Planck Institute in Cologne was bombed by antibiotech terrorists. The institute, one of Germany's most important scientific research centers, still regularly receives bomb threats from groups opposed to genetic engineering, although these days it is protected by high fences and patrolled by guard dogs.

Since the Planck Institute bombing, antibiotech protests have become frequent items on the evening news programs. For example, in September, 1,400 antibiotech protesters came in busloads from all over Germany to attend a local hearing in Marburg at which they opposed an application by Hoechst's Behringwerke pharmaceuticals subsidiary to make recombinant erythropoietin, a protein used to treat anemia that is approved as a drug in the U.S. The graffiti that protesters scrawled across a wall in Marburg denounced "Behringwerke fascism."

The emotional protests come from a loose federation of groups, including the powerful Green Party. The Green

Germany's loss, our gain

Getting approval to set up a biotech factory is no easy task in West Germany, where Green Party protesters can use local regulations to throw up roadblocks. Chancellor Helmut Kohl has promised national regulatory reform this year, but biotech firms aren't holding their breath. Instead, they are investing overseas.

Company	U.S. location	Investment ($mil)	Employees	Description
BASF	Massachusetts	$60.0	250	New biotech lab
Bayer	West Haven, CT	125.0	300	Expansion of existing biotech lab
Bayer	Berkeley, CA	NA	NA	Biotech production plant
Henkel	Santa Rosa, CA	6.2[1]	115	New biotech lab
Hoechst	Boston, MA	60.0	100[2]	Molecular biology grants to Mass General Hospital

[1]Facility equipment and improvements to leased property. [2]Estimated MGH staff supported by Hoechst grants. NA: Not available.

Party's political platform calls for a total ban on biotechnological research, development and production. Gene technology promises to be a hot electoral issue in next year's national elections, and West German biotechnology companies dread a possible coalition of Greens (who now receive around 10% of the vote) and former Chancellor Helmut Schmidt's Social Democrats.

All this uncertainty has virtually paralyzed Germany's fledgling biotech industry. Explains Arnold Heins, vice president of research at Henkel Group, the Düsseldorf-based chemical maker: "There are some pharmaceutical companies who are not able to go on with their genetic engineering projects because of the current regulatory restraints."

In public, the chemical companies are putting up a valiant fight, but it is clearly an uphill battle. Though they are uneasy about discussing it, most of Germany's larger pharmaceutical companies are shifting their biotech operations out of Germany. Increasingly they are moving biotech research and manufacturing facilities to the U.S., investing hundreds of millions of dollars in the process.

Take the story of German chemical giant BASF Group (1988 sales, $24 billion). For over a year its Knoll pharmaceutical subsidiary has been prevented from manufacturing the cancer-fighting substance tumor necrosis factor in Ludwigshafen. Just this September BASF announced that it is building a $60 million biomedical R&D facility in Massachusetts. It will employ 250 people, including 60 scientists, and conduct cancer research. BASF's annual report notes: "On account of the uncertainty about legislation in the Federal Republic of Germany, we reconsidered our choice of site and decided on the U.S."

German chemical company executives are lobbying hard for a federal regulatory framework for biotech products that eliminates much of the current uncertainty. But they're not holding their breath. "West Germany has the most restrictive regulation of production plants in the world," says Ernst Truscheit, director of biotechnology research for Bayer, A.G. (1988 sales, $22 billion).

But Bayer isn't waiting around for the rules to change. Last year it decided to situate its two largest genetic engineering research labs in West Haven, Conn. Over the next five years Bayer will more than triple its biotech R&D expenditures, from $80 million to $270 million, but much of that money will go to labs in the U.S. and Japan. Bayer Chairman Hermann Strenger declared in a recent speech, "We see the U.S. as the region of emphasis in genetic engineering."

Until December 1986 Henkel (1988 sales, $5.6 billion) had conducted all of its research at its headquarters laboratories in Düsseldorf. But when it came to setting up a lab for genetic engineering research, Henkel didn't take any chances. It set up a brand-new facility in Santa Rosa, Calif., staffing it with 115 people.

So far, Hoechst appears to be the lone holdout, refusing to situate biotech labs outside Germany. But even Hoechst is hedging its bets. With a mothballed factory in Frankfurt, it has invested over $60 million in molecular biology research at Massachusetts General Hospital over the last eight years. In return Hoechst gets first look at Mass General research results.

West Germany's regulatory muddle is certainly hurting German industrial competitiveness. Hoechst board member Hansgeorge Careis succinctly notes, "Modern pharmaceutical research without gene technology is just nonsense." Ernst Afting, head of research at Hoechst, concurs, "If we are delayed by two years by the approval process and the competitor has already reached the market, it's very difficult for us to place an innovative drug."

West Germany has no legal restrictions on recombinant DNA research. For example, universities have little difficulty getting approval to conduct recombinant genetic experiments. However, research and commercial development of genetically engineered products are tightly linked. If a company wants to produce so much as a gram of a recombinant substance for commercial distribution, a grueling approval process kicks in.

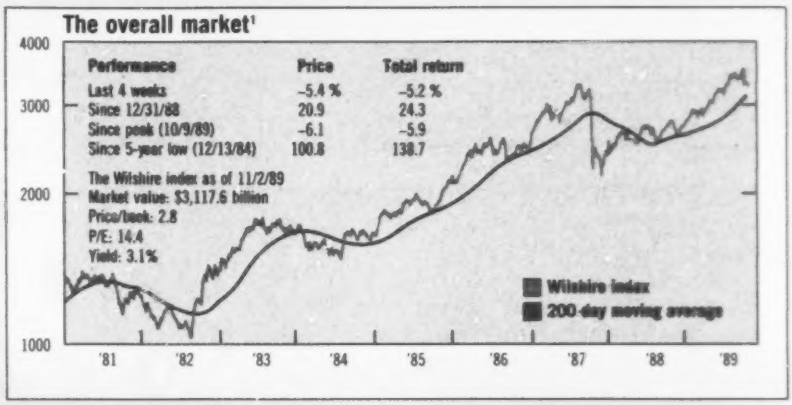
Up to now, biotech regulation has occurred at the local level, with requirements varying among the ten German states. Earlier this year, however, the lower house of the German legislature, the Bundestag, passed a new "gene law" that would give biotech regulatory authority to one federal agency, the ministry of health. Though the measure is by no means pro-industry, it's an improvement over the current regulatory morass. Alas, a coalition of Greens and Social Democratics blocked its passage in the Bundesrat, the upper legislative house, and sent it back to the Kohl government for further consideration.

Chancellor Helmut Kohl has pledged to pass legislation regulating biotech by the end of this year, but nobody in the biotech industry is betting on it. In the meantime, Germany will keep watching some of its leading companies invest abroad in one of the most vital technologies around. Their loss, our gain. ■

The Forbes Wall Street Review

Edited by Eric S. Hardy

Investors decided that they were better off with safe stocks. That's one reason utilities have been beating the market averages recently. The Dow Jones utility index bucked the market and gained 2.2% during the two-week period ended Nov. 2; the Dow industrials were off 1.9%. Higher-yielding issues, like utilities, look even more attractive now that a capital gains tax cut seems unlikely. Gold stocks have also done well. Daniel A. Roling, an analyst with Merrill Lynch, says the recent junk bond debacle may have scared some investors into the precious metals.



Closeup on the Market

Index or investment	Price	2-week change
Wilshire Index 5,000 stocks, capitalization weighted	3,309.75	-2.6%
Wilshire Index 5,000 stocks, equal weighted	21.91	-2.1
Dow Jones Industrials 30 stocks; dollar-adjusted price average	2,631.56	-1.9
S&P 500 Capitalization weighted price-ratio, major stocks	338.48	-2.5
NYSE Capitalization weighted, all listed common stocks	187.64	-2.4
Amex Capitalization weighted total share stocks, warrants	371.48	-3.0
Nasdaq Capitalization weighted, all issues except warrants	453.140	-3.6
Amex International market index Capitalization weighted, 50 biggest ADRs	314.78	-2.6

Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[2] (EAFE) a dollar denominated capitalization weighted index	957.50	-1.2%
Institutional[3] Approximately 200 stocks with high institutional ownership	114.56	-3.9
Individual[3] Approximately 200 stocks with low institutional ownership	107.51	-2.3
Technology Hambrecht & Quist index	250.59	-4.2
Gold[4] (Composite quote of 6 major dealers)	$381.00	4.2
Yen[4] (per $U.S.)	143.20	4.2
Commodity index[4] (CRB futures index, 1967 = 100)	227.31	0.5
Oil[4] (W Texas Intermediate)	$19.98	-3.2
T Bills[4] (90 days)	7.81%	32 basis points[5]
Broker loan rate[4]	10.00%	unchanged

The Best Performing Stocks

Company	Price	2-week change	P/E	Reason
Great Northern Nekoosa	62	59%	16	Georgia-Pacific offers $3.3 billion, or $68 per share, to acquire company
Echo Bay Mines	14½	18	34	Price of gold hits three-month high
FMC Gold	12	17	12	Price of gold hits three-month high
LAC Minerals	11½	15	20	Announces significant increase in gold and zinc reserves; price of gold hits three-month high
Newmont Gold	42¾	14	42	Third-quarter earnings rise 23%, to 30 cents a share; price of gold hits three-month high

The Worst Performing Stocks

Company	Price	2-week change	P/E	Reason
Telecom USA	28½	-23%	23	PaineWebber lowers fiscal 1990 earnings estimate; Hurricane Hugo impacts major customer base
Computer Associates Intl	11⅛	-22	12	Second-quarter earnings decline
HomeFed	34⅛	-21	6	Makes $23 million provision for loan loss reserves
Compaq Computer	89⅛	-20	11	Announces fourth-quarter earnings will be below expectations
Pinnacle West Capital	9¼	-20	NA	Omits dividend; third-quarter earnings decline 91%

Note: All data for periods ending 11/2/89. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization-weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Morgan Stanley Capital International Perspective. [3]A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [4]Knight-Ridder Financial Information. [5]A basis point is equal to one-hundredth of a percentage point. NA: Not applicable.

Forbes/TUCS Institutional Portfolio

Edited by Steve Kichen

Who made the most money?

Investment	Value of $10,000 invested 9/29/79[1]	Change last quarter
[illegible][2]	$44,480	9.3%
[illegible][2]	39,389	5.4
[illegible][2]	28,912	1.1
Wilshire Index	46,881	10.1
S&P 500	49,022	10.7
Shearson Lehman Govt & Corp	29,698	0.9
Treasury Index	23,720	2.0

Segment performance and cash flows

Segment	Most recent quarter: median total return	Most recent quarter: shift in institutional holdings
Equity	10.4%	–1.6%
Fixed income	1.0	–0.7
Cash equivalents	2.2	6.1
Convertibles	4.6	–0.1
Other[3]	2.7	0.1
Total	6.8	–1.3

Professional money managers have turned their attention north. During the last quarter they were heavy buyers of Canadian stocks. Of the dozen major issues (market capitalization over $1 billion) that showed significant increases in institutional ownership, almost half are Canadian. This information comes to us from Santa Monica-based Wilshire Associates' Trust Universe Comparison Service, which monitors $400 billion in pension assets held in 4,000 portfolios.

The TUCS sample represents approximately a quarter of total U.S. pension plan assets. In the TUCS universe, for example, TransCanada Pipeline was held in only 12 portfolios at the start of the quarter but in 51 portfolios at the end of the quarter. Other Canadian issues on the TUCS institutional buying list: Brascan Ltd., Laidlaw Transportation, MacMillan Bloedel and Echo Bay Mines.

Most of the major stocks that showed significant institutional selling still managed to post positive returns for the quarter. Georgia Gulf, for instance, had a total return of 41% but was cleared out of 26 portfolios. "It looks like a case of the institutions taking some profits while they had the opportunity," says Dale Stevens, a vice president at Wilshire Associates.

Eliminated from the lists below are issues with pending acquisition activity. For instance, during the last quarter the institutions cut their UAL holdings in half as the carrier was closed out of over 100 portfolios. A month later there were 257 other portfolio managers in the TUCS system who wished that they, too, had sold UAL to the arbitragers.

What the institutions bought and sold

Big stocks[4]

Stock bought	Total quarter return	P/E	Stock sold	P/E	Total quarter return
[illegible]	31.2%	23.6	Anheuser Greetings A	30.4%	21.2
Brascan Ltd	–0.5	9.7	American Petrofina	–10.6	6.9
Continental Bank	7.6	4.7	Consolidated Papers	6.0	11.2
DPL	7.4	9.8	Crestar Financial	14.1	10.4
Echo Bay Mines Ltd	12.4	31.8	General Motors E	5.7	16.0
Laidlaw Transport B	30.4	25.7	Georgia Gulf	41.4	6.9
MacMillan Bloedel Ltd	15.3	7.2	Gulf States Utilities	18.2	NM
National Health Labs	10.8	18.0	Kelly Services	10.6	18.4
Newmont Gold	12.2	36.8	KLM Royal Dutch Airlines	13.1	8.5
EW Scripps A	–2.2	24.5	Sun Microsystems	–10.3	20.1
TransCanada Pipeline	18.7	NM	Texas Utilities	4.8	8.0
Turner Broadcast Sys A	36.8	NM	WM Wrigley Jr	–3.5	17.5

Secondary stocks[5]

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
[illegible]	–19.9%	NM	[illegible]	40.0%	NM
ALC Communications	0.0	NM	Brace	–0.7	10.6
Arkansas Freightways	0.0	16.5	Home Intensive Care	13.5	12.5
Coleraco	53.3	NM	Immunex	46.2	NM
Executone Info Sys	37.5	NM	Immunomedics	–3.1	NM
Forum Group	15.3	NM	Iowa Southern	5.3	9.3
Golden Poultry	–5.4	7.9	Liqui-Box	1.2	15.5
Healthdyne	100.0	NM	Metro Airlines	23.7	NM
Heritage Media A	–24.4	NM	Metropolitan Financial	11.2	6.9
Lesco	39.8	31.6	Orange-Co	–1.2	28.1
Marsh Supermarkets	20.0	15.2	Pathe Communications	–19.4	NM
Western Co North America	36.0	NM	PharmaKinetics Labs	–23.7	18.8

[1] Total return. [2] Includes cash. [3] Real estate, foreign investments, venture capital, guaranteed income contracts. [4] Stocks with $1 billion or more in market capitalization at start of quarter. [5] Stocks with market capitalization between $40 million and $200 million. NM: Not meaningful.

Note: What the institutions bought and sold measures the change in the institutional holdings as a percentage of a stock's total capitalization, net of price changes. Data for quarter ending 9/30/89. Prepared by the Trust Universe Comparison Service (TUCS), a service of Wilshire Associates, Santa Monica, Calif.